

August 12, 2004

Honorable Members of the City Council  
City of Long Beach, California

SUBJECT: 2004-2005 Proposed Budget Transmittal

Dear Colleagues:

It is my pleasure to transmit to you the City of Long Beach Proposed Budget for Fiscal Year 2004-2005. This budget package includes the City Manager Proposed Resource Allocation Plan and my budget recommendations.

As you are aware, this begins the second year of our City Council approved Three-Year Financial Strategic Plan that is designed to guide us out of our structural deficit and into an era of balanced budgets. As with the 2003-04 budget, this plan involves the input of the community along with countless hours by the City Manager's staff to craft a budget that reflects the community's priorities while making the necessary cuts and reductions. It was not an easy budget to put together, but we knew going into the Three-Year Plan that there would be pain along the way. But it is the only way for us to find our way out of the thicket of deficits and into an open field of positive cash flow.

It is vital for us to stay on the course established one year ago and see the Three-Year Plan through to its conclusion. Through the uncommon efforts of the City Manager and his department heads every aspect of City services have been analyzed line by line as to their importance and how they are being delivered. This is a critical period in our history because never before have we been forced to be this analytical regarding City services. We will emerge from this process a much stronger community with a better understanding of what our core services should be, what our constituents expect and the most efficient way of delivering those services.

This plan moves us one year closer to a balanced budget and one year closer to the goal we established with the approval of the Three-Year Strategic Plan. It is essential that we keep that goal firmly in mind as we approach the 2004-05 fiscal year.

## **INTRODUCTION**

### **STATE BUDGET**

The 2004-2005 State budget was agreed upon after much discussion and compromising between Governor Schwarzenegger and the Legislature, and while it was nearly one month overdue, we all worked together to provide more protection of local government finances than we've seen in many years. This is due in large measure to the involvement and access the Big Ten Mayors have had with the Governor, and with the leadership role taken by the League of California Cities.

Local governments will work with State government to give to the State the money to achieve a \$2.6 billion savings to the State budget over the next two years, and in return are receiving unprecedented constitutional protection against future raids on local budgets. Lawmakers will place a constitutional amendment on the November 2<sup>nd</sup> ballot to safeguard local budgets. The State will only be allowed to borrow funds from cities and counties twice in ten years and must pay back all borrowed funds with interest. The State cannot borrow a second time in ten years until the first loan has been repaid. The amount of borrowing is capped at eight percent of local governments' share of property taxes. Also, local governments will not be required to implement State mandates that are not funded. The agreement isn't everything that the Big 10 Mayors and League of California Cities had hoped for, but it is a major step forward in allowing us to budget in future years with more assurance of a reliable source of revenue.

### **ECONOMIC AND RESIDENTIAL GROWTH**

With the existing burden of our budget deficit we must never ignore the changing face of our economy or of our landscape. Our economy is more diversified today than it has ever been, and we continue to make dramatic and compelling changes to our urban appearance. The 3,000 residential units being built, in or near downtown, are in many cases nearing completion. They are bringing a new enthusiasm and energy level to our urban core. They are also bringing disposable income with them—benefiting our many diverse restaurants and retailers.

#### ***Building for the Future***

In the past three years, building permits for improvements or new construction of residential or commercial buildings have been issued whose valuation exceeds one billion dollars. This is evident proof of the faith that developers and lending institutions are expressing in our community. This new construction will fund future property tax growth that has **increased** over 31% since 2000.

#### ***Redevelopment Agency***

The City's Redevelopment Agency is moving ahead with its plans to develop West Gateway into a seven-block mixed-use improvement, featuring ground floor retail and approximately 800 residential units. This development will dynamically alter the face of Long Beach for people exiting off the 710 freeway and will work in concert with the changes occurring on Ocean Boulevard.

***Retail Growth Generates Revenue***

The City's retail sales have increased 85% since 1994, and sales tax revenue has increased nearly 16% since 2000. We will continue to grow with the expected build-out of the Pike at Rainbow Harbor. As they add restaurants and aggressively pursue additional retailers, our waterfront development moves closer to its goal of becoming Southern California's waterfront destination of choice. Pine Avenue also is adding new restaurants and retailers as we strengthen its role as an evening venue for food and entertainment.

***Tourism***

Our hotels are seeing an increase in occupancy, fueled this summer by the Toyota Aquatics Grand Prix of Long Beach. The event generated millions of dollars in publicity for Long Beach in both print and electronic media, and attracted 100,000 in attendance. Many of the visitors were first-timers to Long Beach and will carry home the message of our renaissance, our strategic location and our climate. We also benefit from the varied activities taking place at the Home Depot Sports Center in Carson, which includes tennis, soccer, cycling, and track and field. Since we can provide the amenities that world-class athletes demand—all of this bodes well for the future of our tourism business.

***All of these efforts give us the funds for the future, to help sustain our income for improvements to our neighborhoods and provide services for our quality of life.***

***Citywide Improvements***

The Water Department began construction this year of the largest federally authorized desalination research and development project in the nation and our residents continue to enjoy the lowest residential gas bills in Southern California. The Port of Long Beach continues to expand and while grappling with the sustained growth of Pacific Rim trade, is also increasing its environmental mitigation efforts with diesel abatement programs and new technology to improve its ground transportation operations through the "Healthy Harbor Initiative."

These growth improvements also help the needs of the City and are occurring in our neighborhoods as we continue with our multi-year plan to address sidewalks, gutters and curbs, complete the North Division Police Station and begin work on the first new branch library in over 20 years.

While we still face daunting fiscal challenges and tough decisions that must be made over the next few months; we are also seeing an upside for our future that cannot be matched by any community in Southern California and very few in the nation.

## **FISCAL POLICIES – CITY COUNCIL ADOPTED**

One of the critical components of the Three-Year Plan adopted by the City Council last year was the establishment of a clear and comprehensive set of fiscal policies, which would serve as the framework within which the City's financial planning and decisions are made. I continue to wholeheartedly support the City Council approved fiscal policies for the City of Long Beach. They are recapped as follows:

### ***Structurally Balanced Budget***

Establishes a policy that all annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets.

### ***Report on How the Budget is Balanced***

The City Manager will include in the narrative transmitting the Proposed Budget a concise discussion on how the budget is balanced.

### ***General Fund Reserves***

The City shall maintain an Emergency Reserve equivalent to 10% of the General Fund recurring expenditures and an Operating Reserve equivalent to 10%.

### ***Use of One-Time Resources***

Once the General Fund budget is brought into structural balance, one-time resources shall not be used for current or new ongoing operating expenses.

### ***Use of New Discretionary Revenue***

Once the General Fund budget is brought into structural balance, a minimum of 10% of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

### ***Accounting and Financial Reporting***

The City will conform to Generally Accepted Accounting Principals as promulgated by the Governmental Accounting Standards Board (GASB).

### ***User Fees and Charges***

Every three years or less, staff will provide the City Council with reports that detail the full costs (operating, direct, indirect and capital) of providing services supported by user fees or charges.

### ***Grants***

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the city.

### ***Long-Term Financial Plan***

Each year, staff shall develop a Long-Term Financial Plan that forecasts operating expenditures and revenue for the next three to five years and capital expenditures and revenue for the next seven years.

### ***Debt Issuance***

General Fund long-term debt payments shall not exceed 10% of operating expenditures. In addition, the City shall not issue long-term (over 1-year) General Fund debt to supporting operating costs. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

## **CITY COUNCIL GOALS AND PRIORITIES**

In the past year, the City Council has wisely crafted their Goals and Priorities, which will help to define the City's policy direction and provide guidance for fiscal and operational decisions of city management. We commend the City Manager for his commitment to these goals in his daily management, as well as in the formulation of the Three-Year Plan and proposed budgets. The consensus Goals established at the February 6, 2004 Council Retreat are as follows:

Maintain a stable financial foundation and work toward maintaining a balanced budget with adequate resources.

Further reduce crime, particularly violent crime.

Enhance neighborhood economic development efforts.

Improve environmental conditions in the City of Long Beach.

Promote quality housing development; improve home ownership opportunities for Long Beach residents.

Improve the quality of life in neighborhoods.

Promote workforce and business development efforts so as to create new jobs; ensure Long Beach becomes more business friendly.

Support programs that encourage the public's health and well-being.

Expand the community's involvement in the workings of Long Beach government.

Implement modern and well-maintained infrastructure, energy and transportation systems infrastructure.

## **CITY MANAGER'S PROPOSALS 2004-2005**

The City Manager is to again be commended for his outstanding leadership in the development and implementation of the City's Three-Year Plan. Challenged to restore the City to fiscal stability, his strategic and comprehensive approach will result in over \$73 million in deficit reductions in the first two years of the plan and, over the three-year period, a structurally balanced budget will be achieved through a combination of approximately \$101 million in cost reductions and revenue enhancements. By following the Three-Year Plan, we will achieve a fiscal balance between ongoing revenue and expenditures, while maintaining core services by the end of FY 06. This is clearly an extraordinary achievement.

However, the City Manager recognized that the daunting challenges of the City's fiscal situation also presented opportunities, and through his leadership, is creating a paradigm shift in the culture of the City organization. Through a comprehensive process that reflects community priorities and employee-driven solutions, innovative practices and comprehensive long-range planning efforts are being employed at an unprecedented level. These efforts will not only provide a stronger foundation for long-term fiscal stability that mandates fiscal restraint and caution, but will transform the organization into one that delivers targeted services more efficiently and effectively, while protecting the community's assets for generations to come.

### **LONG RANGE PLANNING REVIEW**

Last year the City Manager launched a comprehensive long-range planning process to re-tool City operations and programs, making them more efficient, strategic, and focused on core services. The following are some of the reviews that have been undertaken:

#### ***Workers' Compensation, Occupational Health and Safety Review***

Presented to the City Council in April 2004, this review presented key recommendations including improving claims reporting and management, streamlining medical procedures and increasing the City's focus on workplace safety. Implemented through a citywide Business Improvement Strategy, \$1.8 million in savings is expected for FY 05 due to these process improvements and legislative changes, and savings are expected to reach \$5 million annually after four years.

#### ***Fleet Services Study***

Presented to the City Council in April 2004, the study identified hundreds of vehicles for possible elimination or downsizing and included recommendations for improvements in fleet operations. Approximately \$2 million total can be saved in vehicle maintenance, capital recovery, staff and operational costs as a result of the fleet review.

#### ***Compensation and Staffing Review***

Presented to the City Council in May 2004, the findings do not represent any direct savings, however, the recommendations provide a good foundation for well-informed discussions with our employee organizations.

**LONG RANGE PLANNING REVIEW – continued**

***Code Enforcement/Nuisance Abatement***

Presented to the City Council in May 2004, the recommendations include consolidation of inspection and enforcement teams under the Department of Community Development, a geographically based team approach focusing on partnerships with neighborhoods, and staff realignment to improve efficiency in the delivery of code enforcement services. A detailed implementation plan is expected in August or September 2004 and we anticipate over \$1.7 million in annual savings.

***Fire Services and Emergency Dispatch***

Expected to be presented to the City Council in September 2004, this comprehensive study will review all aspects of the Fire Department's services and delivery methods, including staffing, infrastructure, revenue, fleet and calls for service. Savings from this study are estimated at \$1.5 million annually.

***Citywide Fee Study***

While the study will identify potential fee increases for FY 05, an estimated amount cannot be quantified at this time. As additional revenue from fees is identified, the City Council should carefully consider its financial policies, as well as the use of increased fee revenue to mitigate cost reductions in FY 05 or help to solve the \$870,000 projected structural gap remaining at the end of FY 06.

***Community Arts Funding Strategy***

Recognizing the importance of art and cultural programs to the quality of life in our City and the impact of the Three-Year Plan reductions had on arts programs, a 17-member Community Arts Funding Strategy Task Force was convened and charged with developing a long-term funding strategy for arts and culture in Long Beach. After four months of work, the Task Force arrived at a long-term, multi-pronged, funding strategy that includes both public and private support.

In addition, the following are examples of reviews that are either in progress or are being proposed to begin in FY 05.

*Health Insurance*

*Information and Technology Services*

*Parking Management*

*Youth Services (Including Gang Prevention and Intervention)*

*Ambulance Billing*

*School Crossing Guards*

*Custodial Services*

*Information Systems Assessment*

*Natural Gas Pipeline Infrastructure Review*

*City Facility Assessments*

**CITY MANAGER PROPOSED ENHANCEMENTS**

*Recommend support for the City Manager's proposed enhancements, which have been identified as core services, community priorities and/or as Mayor & City Council priorities. Highlighted below are some of the critical enhancements:*

***Police Officers***

Ten new sworn police officers will be added through the COPS grant, providing additional officers to patrol our neighborhoods.

***Disaster Preparedness Support***

September 11<sup>th</sup> has forever changed our nation and city's approach to public safety. We must not only protect our citizens from crime, but also from the potential of terrorist activity. As a waterfront community, and as home to the largest port complex in the country, the protection of our waterfront "border" has become a critical priority. The coordination of this and other assets of a City of almost a half a million people requires an investment in disaster planning and coordination. The addition of support staff will provide much needed assistance in not only operational coordination but also in managing the complex nature of the various homeland security grants.

***Gang Intervention and Prevention Staffing***

Gang violence in our City continues to be a challenge; therefore we support all efforts to address this ongoing problem through prevention and intervention efforts.

For a complete list of City Manager proposed enhancements, please refer to page 20 in the Proposed Resource Allocation Plan.

**REVENUE / FEE ADJUSTMENTS**

As we stated earlier, the changing face of our economy continues to yield results in the form of revenue growth for our General Fund. FY 05 Property Tax revenue shows a projected growth of \$4.7 million, and Sales Tax revenue growth of \$1.9 million. In addition, additional revenue is resulting from Pipeline Franchise Fees of \$1.8 million, Motor Vehicle License Fees of \$1.2 million, and Transient Occupancy Tax of \$353,000. However, these increases are significantly offset by the reduction of the Utility Users Tax to 5% and from any losses from the State.

The Three-Year Plan also calls for various fee increases, which are consistent and comparable with fees charged by other cities and agencies, and will help to recover costs for the provision of these services. Fee-related revenues proposed in the budget total \$4.4 million and are necessary in order to avoid additional harmful cuts to core services. These increases include parking meter rates, various parking citations and fees, ambulance transport and mileage rate changes, environmental health fees, adult sports and group recreation related fees, various special event and moving film fees, utility late payment fees, airport rates and fees charged to commercial and cargo carriers, code enforcement charges and fines to better recover costs. In addition, a general rate increase of 2.3% is proposed for gas services and a 4.5% rate increase for water, both of which will bring fees in line with those charged by other cities and agencies.

***Recommend support of the fee increases proposed by the City Manager and Board of Water Commissioners.***



## **MAYOR'S PROPOSALS 2004-2005**

### **UPDATED THREE-YEAR PLAN**

The Three-Year Plan, which was adopted by the City Council in March 2003, had a calculated three-year deficit of approximately \$90 million. Since that time, the City has incurred approximately \$15 million in additional costs, primarily from skyrocketing national healthcare costs, general liability and workers' compensation costs, to increase the structural deficit to \$105 million. The proposed update maintains to a large extent the direction of the endorsed plan, yet incorporates approx \$12 million in new ideas spread over FY05 and FY06.

The second year of the three-year strategic plan includes the following budget reductions:

General Administration and Management reductions--\$3.5 million in cuts, including the elimination of 31 positions.

Employee Benefits and Work Practices--\$5.1 million in reductions achieved through negotiations with employee unions.

Operational and organizational changes--\$4.7 million.

Materials, Supplies and Equipment--\$1.6 million by reductions in technology and in fleet operations.

Contracting-in, contracting-out--\$1.7 million.

A new maintenance strategy will allow a \$1.7 million reduction.

Public Safety Emergency Services--\$1.8 million primarily through reductions relating to optimization of the Long Beach Fire Department.

Program reductions for libraries, arts, cultural and recreation programs, totaling \$1.3 million.

Code Enforcement--\$464,000 achieved through a realignment of the organization around a neighborhood-based enforcement approach.

***Recommend the City Council adopt the Updated Three-Year Plan.***

## **FISCAL PRIORITIES**

### **CITY EMPLOYEE'S CONTRIBUTIONS**

In Fiscal Year 05, City employees will be asked to make contributions to help the City meet the Three-Year Plan. The planned request for employee contributions for this year was decreased by 2/3, from approximately \$15 million to \$5 million.

### **NO CalPERS PAYMENTS DEFERRED**

We know that one third of the City's debt, or \$33.3 million, is the result of the CalPERS payments returning in FY 05. The City Council has been given the option to defer part of the first year's payment into CalPERS, which would equate to approximately \$14.7 million in savings for FY 05. However, this deferral would be structured as a "loan" with an interest rate of 7.75% and would add \$1.8 million to the FY 06-07 payment, and would result in even higher rates in 2007-08. ***As a result, it is strongly recommended that this deferral option not be approved.***

## **FISCAL PRIORITIES - continued**

### **RESERVES MUST BE MAINTAINED**

#### **Emergency Reserve**

The City Council has wisely maintained an Emergency Reserve that now totals \$36 million. City Council policy states that we maintain this reserve at 10% of the General Fund budget. Our high credit rating has in part resulted from our maintenance of this reserve at current levels, and this must continue. As I have stated for the last several years, I am strongly opposed to the use of Emergency Reserves as a one-time budget balancing mechanism.

#### **Operations Reserve**

Last year the City Manager planned an Operations Reserve of \$200,000, with the eventual goal of maintaining this at a level of 10% of the General Fund budget. We commend his allocation of an additional \$200,000 to this reserve fund for FY 05.

### **OPTIMIZATION AND CONTRACTING OUT**

One of the strengths of the Three-Year plan is in city staff's use of optimization practices, which employs a comprehensive, collaborative and innovative approach to define more efficient methods of delivering service. While giving employees the chance to participate in cost-cutting measures, areas that are being evaluated are the remainder of custodial services at park facilities, the remainder of parks grounds and street island landscaping, facility maintenance at the Health Department, health physician services, and Civic Center custodial services. In addition, City staff are reviewing ambulance billing, information technology, payroll services, and towing operations for optimization or contracting out of the services.

### **CONTRACTING IN / COST RECOVERY**

As of March 31<sup>st</sup>, the City had over 45 "contracting in" contracts valued at \$9.5 million, and 33 potential partnering opportunities have been identified. We support the continued exploration of marketing City services to surrounding cities and agencies, as feasible and when full cost-recovery is attainable.

### **PUBLIC SAFETY & HOMELAND SECURITY**

Continued Homeland Security funding for our Nation's first responders continues to be a critical need. We will continue to work with the U.S. Conference of Mayors to advocate for additional, expedited funding to ensure cities get the federal funds needed.

Public safety is our first priority in cities, with 65% of our General Fund dedicated to these needs. Gang violence is on the rise in cities across the country, and we must continue to advocate for federal funding to support the ongoing fight against traditional crime, with increased support for deployment, overtime, prevention, equipment and training programs.

## **FISCAL PRIORITIES - continued**

### **INFRASTRUCTURE INVESTMENT**

As the City Manager states, "strategies that produce short-term solutions by forsaking long-term maintenance typically cost exponentially more." Public Works is developing a comprehensive infrastructure maintenance strategy for the City's various assets. Such a plan would identify need, priority and funding sources. For reference, ***I have supported the creation of such a strategic plan every year since 1996 (as noted below) and consider this a critical policy for the City.***

***It is recommended the City Council and City management begin development of a Public Infrastructure Strategic Plan.*** The objective is to identify community priorities and develop a plan to achieve them, similar to the Police Strategic Plan. Indeed, maintaining our public infrastructure is not only vital to strong neighborhoods and economic growth, but contributes greatly to the public's safety.

*August 1996 -- Mayor's FY 1996-97 Budget Recommendations*

## **MAYOR'S RECOMMENDATIONS**

The Three-Year Plan has outlined difficult recommendations by City staff and illustrated courageous decisions by the City Council, many of which require significant cuts in services that could have a negative impact on the community. I have stated repeatedly that we must maintain our support of this comprehensive and extraordinarily well-devised plan. However, there are a few areas where recommended programs either be restored, or their elimination be suspended pending further review.

In addition, as I have stated in my prior year budget recommendations, for every recommendation outlining an increase that we identify, we recommend that reductions be found elsewhere in the budget so there will be not be a negative fiscal impact to the Three-Year Plan.

### **REDUCTIONS RECOMMENDED AS PRIORITIES FOR RE-INSTATEMENT WHEN FUNDING IS IDENTIFIED**

#### ***PAL/DARE***

**+\$434,000**

After-school programs, such as PAL, provide safe, productive places for children and youth, provide much needed mentors and positive relationship development with police officers, and help to prevent involvement in gang activity. Additionally, we believe the reduction in investment in after-school programs will only result in exponentially greater enforcement costs in the future.

DARE has an established history of providing quality drug education programs that touch every 5th and 7th grade student in our communities.

***Recommend that the suspension of PAL/DARE programs be rescinded, subject to the soon to commence review of youth service programming citywide, for re-evaluation for continued funding in FY 06.***

#### ***Mobile Recreation***

**+\$122,000**

Mobile recreation programs often provide the only avenue for such programs in many of our densest neighborhoods. The reduction of such activities in non-CDBG funded areas, particularly in the 4th and 7th districts, will have a significant negative impact on populations that greatly need these programs.

***Recommend that the suspension of mobile recreation programs in non-CDBG areas be rescinded, subject to the soon to commence review of youth service programming citywide, for re-evaluation for continued funding in FY 06.***

**MAYOR'S RECOMMENDATIONS – continued**

***Library Services***

**+\$168,000**

Our libraries have absorbed extraordinary budget cuts over the years, resulting in the reduction of investment in materials and books, the reduction of children and youth programming, and the limitation in services to the community through the reduction of hours at all branch libraries.

The adopted Three-Year Plan called for a total reduction of \$846,876 in our libraries; the updated Three-Year Plan doubles that reduction, to \$1,654,242.

While we recognize that our commitment to the Three-Year Plan will result in significant reductions to programs that enhance our quality of life, the reductions to the library are too extreme.

***Recommend that the reduction in educational programming and services included in the Three-Year Plan be rescinded.***

***Day Camps***

*No fiscal impact*

The Three-Year Plan calls for the suspension of Day Camps and instead providing drop-in services at neighborhood parks. We like the model of the "neighborhood-based" drop-in program, however, it does not include the structure and supervision activities of Day Camps. However, there may be the option of continuing Day Camps as a fee-based program that could include full cost recovery for the services rendered.

***Recommend that the reduction of the Day Camp program be rescinded, subject to review as a program offered only as a fee-based service that would include full cost-recovery.***

**TOTAL**

**+\$724,000**

## **MAYOR'S RECOMMENDATIONS – continued**

### **AREAS TO EXPLORE FOR ADDITIONAL REDUCTIONS**

The Three-Year Plan has been developed through an exhaustive and comprehensive evaluation of programs and operations citywide. However, we recognize that there may be opportunities for additional or escalated reductions in areas of the plan, including:

#### ***Fleet Services***

Our recent fleet study identified hundreds of vehicles for possible elimination or downsizing and included recommendations for improvements in fleet operations.

#### ***Technology Services***

The Three-Year Plan calls for the streamlining and reorganization of Technology Services, as well as the extension of PC replacement cycles and reduces equipment purchases.

#### ***Contract Contingencies & Consulting Contracts***

Currently we provide contingencies in contracts at 10-15%, depending upon the complexity and nature of the project, and consulting contracts currently could be reduced 2-5%.

#### ***Various Non-Personal Services Expenses***

There are various non-personal services expenses, such as travel, business meals, seminar expenses, subscriptions and newspapers, catering and office supplies, which may be considered for additional review.

### **OPPORTUNITIES FOR PUBLIC/PRIVATE PARTNERSHIPS**

The City's fiscal situation provides great challenges for the organization, however, as we know, out of great challenges come great opportunities. One significant opportunity is to enhance the City's level of partnerships with the private and non-profit sectors, to help augment support and/or funding for key services. We commend the City Manager for developing and/or enhancing many existing partnerships, and look forward to additional innovative partnerships that are mutually beneficial and enhance the quality of life for the entire community.

### **ELECTED OFFICIAL AND NON-CITY MANAGER BUDGETS**

Last year we commended the City Council for their efforts in reducing their office budgets for FY 04. The Legislative Department's overall budget for FY 05 increased 6.6%, however, this increase occurred while the offices were absorbing over 14% in PERS and benefit increases, thus their office budgets actually decreased 5.2% from their Base Budget for FY 05.

	<b>FY 05 BASE BUDGET</b> (excludes PERS/ Health Increases)			
\$4,053,368	\$3,835,798	-5.2%	\$4,312,603	+6.6%

We wish to commend the City Clerk for reducing his budget for FY 05 by over 20%, thereby freeing critical monies in non-city election years for other purposes. Although this will result in significant dollar swings in the Clerk's budget every two years, we believe it reflects responsible fiscal planning.

## **CONTINUING CITY NEEDS AND ADDITIONAL COMMENTS**

### **TIDELANDS FUNDS**

The Tidelands Fund supports the operating, maintenance and development of the Tidelands Trust area. The various fiscal challenges in the tidelands area, coupled with the increased demand for services whose costs are not fully recovered, continue to challenge the Tidelands Fund revenue streams. Cost reduction strategies and new revenue sources are being identified to help balance the tidelands fund.

### **HEALTH FUND**

The Health Fund provides the resources for critical public health services, including children, adult and senior health services, disease prevention and control, homeless services, environment inspection and testing, and vector control. Due to delays in grant funding and State reimbursements, the Health Fund faces a cash-flow challenge of approximate \$2.8 million in FY 05, which will be met with a strategy to reduce costs while still continuing to deliver core services.

### **COMMUNITY DEVELOPMENT GRANTS**

Revenue sources for some Community Development programs are under extreme threat from Federal and State cutbacks.

#### **Workforce Development**

Reductions of more than \$14 million in federal funding between 2001 and 2005 have greatly impacted our local workforce development programs. Given the new realities of global competition, it is vital that we do all we can to have an available and trained workforce for our local employers. In addition, it is imperative that the federal government returns to its role as a partner with local government in this effort, and restore their investment in workforce training, and workforce preparation for youth and summer youth employment.

#### **Housing Authority**

The Housing Authority provides affordable housing to approximately 6,500 low-income households, primarily through the Section 8 Housing Choice Voucher program. Due to a change in federal allocation formulas, and a long-standing leasing practice, a \$6.2 million deficit was created in the Housing Authority. Through the implementation of immediate operational changes in local practices and aggressive federal advocacy efforts, the Housing Authority is expected to restore its financial stability in FY 05.

### **CROSSING GUARDS**

The Three-Year Plan and the FY05 proposed budget call for the optimization of the crossing guard program for a savings of \$200,000. These savings will be achieved through cost reductions and improvements in operations and procedures, which will not adversely affect services. We commend the partnership between the City and LBUSD that has been created to evaluate this important citywide issue.

**PARKS AND OPEN SPACE FUNDING**

The Three-Year Plan calls for the suspension of mini-park development for the time being. However, mini-park development is only one component of the City's Open Space Element. The City will continue to guide efforts to acquire approx 600 acres of salt marsh, seasonal and freshwater wetlands, and implement a wetlands restoration plan. In addition, we are pursuing grant funding to protect and restore remaining parcels of undeveloped land.

**MUNICIPAL BAND**

We commend the City Manager for maintaining funding for six concerts per season for the Municipal Band.

**CITY/LBUSD PARTNERSHIPS**

We commend the City and LBUSD for their ongoing dialogue that will continue to develop opportunities for City-School District collaborations that leverage existing resources.

**ENVIRONMENT**

As a beachfront community with extraordinary climate and the best location in southern California to live work and recreate, we must continue to be balanced in our decisions to maintain our natural assets for future generations.

**STATE BUDGET - PROP 1A**

As stated earlier, in an historic achievement for local governments, the State budget was adopted this year providing unprecedented constitutional protection against future raids on local budgets. A constitutional amendment will be placed on the November 2 ballot to safeguard local budgets, and for the first time will allow local governments the constitutional right to keep their funds in their communities.

**PUBLIC SAFETY FUNDING**

Los Angeles County Sheriff, Lee Baca, has proposed a countywide sales tax increase of one-half cent to strengthen public safety, homeland security and anti-terrorism efforts. The Los Angeles County Board of Supervisors voted to place the initiative on the November ballot. Should the sales tax initiative pass, Long Beach stands to receive more than \$19 million to enhance its public safety-related budgets.

**TRANSIENT OCCUPANCY TAX INCREASE**

Tourism is a key element of the City's economy, and will continue to be a significant engine for growth in the future. To meet this need, it is clear that increased funding is required. ***I support the ongoing evaluation of an initiative on the ballot to increase the Transient Occupancy Tax, with the allocation of this increase to be negotiated by the Convention and Visitor's Bureau and City staff.*** The increased cost of this tax would be borne solely by visitors to the City and is in line with what other jurisdictions are charging.



### **HARBOR**

We commend the Board of Harbor Commissioners for their continuing support of the agreement that transfers 10% of the Port's net operating profit to help fund the Tidelands.

### **QUALITY OF LIFE PROGRAMMING FUNDING**

Youth – It is vital that we continue to pay attention to after-school programs, so that our school-aged youth are productively engaged in various activities during those critical hours when juvenile crime is highest. These programs need to continue to be a cooperative effort between the City, the Long Beach Unified School District and the various non-profit organizations in the City.

Libraries – As budgets continue to tighten and library funding becomes more vulnerable, it is essential that we explore other opportunities to sustain the library system to meet the needs of our constantly changing population.

Seniors – While youth programming is a key priority for the City, we must continue to be mindful of the needs of our senior population.

Homeless Services – The City of Long Beach is home to a growing homeless population, which affects neighborhoods, parks, schools, and businesses. This population provides challenges on how best to address their needs, with the desired outcome of providing hope and options.

### **MAJOR INFRASTRUCTURE CONCERNS**

We continue to focus on the funding availabilities for addressing the congestion and the condition of the 710 freeway and the Gerald Desmond Bridge. This thoroughfare is a critical transportation link, not only for the truck traffic heading for the port, but also for visitors coming to Long Beach. The work of our Federal Legislative and Environmental Affairs Committee, in concert with the work of our Federal advocates, has placed the 710 Freeway's funding in the TEA-21 funding discussion and we expect that significant funds will be allocated in the coming fiscal year.

Plans for the airport continue to move through the various public hearings in working towards the development of an EIR and recommendations that will address the full scope of the proposed terminal facility changes. The recommendations to be reviewed are necessary for the airport to more efficiently deal with the increased number of passengers.

### **BUDGET PROCESS**

Per the City Charter, the City Manager must transmit the Proposed Resource Allocation Plan to the Mayor on or before August 1<sup>st</sup>. It is then transmitted along with my recommendations, to the City Council on or before August 15<sup>th</sup> of each year. We thank the City Manager and his outstanding staff for the opportunity to work together over the past eleven days.

## **VISION FOR THE FUTURE**

Any vision that we have for the future of our community must, of course, begin with the elimination of the structural deficit and the permanent establishment of balanced revenues and expenses. That is what the Three-Year Plan is designed to accomplish and it is working.

We are continuing to attract investors and developers, who see the incredible upside to a location on the waterfront, with a marvelous climate, located mid way between Los Angeles and central Orange County. The residential component of our downtown is undergoing a renaissance that is unmatched anywhere in Southern California—and it seems each week the development of another high-rise is announced.

This speaks well for our community and certainly is good news for our future. Our community was exposed to tens of thousands of visitors this summer during the Toyota Aquatics Grand Prix and Olympic Swimming trials. Many of those who came to see the competition were seeing Long Beach for the first time, or the first time in many years. They were impressed as they flocked to our restaurants, filled our hotel rooms, spent time along Rainbow Pier and visited the Aquarium and the Queen Mary.

Our City has faced fiscal challenges in the past, especially in the middle 1990's when we lost our economic tax base with the closure of the shipyard, the loss of the navy and the downsizing of aerospace. At that time, we developed a strategy for long-term revenue growth through more retail sales taxes, higher property values, and a greater reliance on tourism, international trade, and the development of technology in Long Beach. ***Without this long-term revenue-growth strategy developed in the last decade, we would not have the base that will provide for our fiscal stability in the next three years and into the future.***

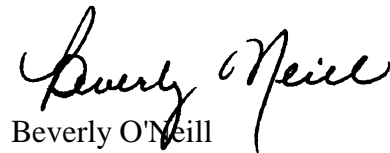
So many cities allow circumstances to determine their future without a plan or any strategic thoughts regarding the future. That isn't happening in Long Beach. We began plotting our future when we knew we could no longer depend upon those cornerstones that had supported us through most of the 20<sup>th</sup> century. Cities cannot remain static, they either grow or they wither. As population increases, a city's economy must adjust to the newer circumstances. We are committed to a long-term strategy that will ensure that we can sustain those things that we cherish. We are more diversified, more inclusive, more optimistic and more focused on our future than ever before. Residents and visitors see the changes and are impressed. We see the changes and know we are building for our future and a strong diverse economy.

## **ACTION REQUESTED**

It is respectfully requested that the City Council:

**Approve the 2004-2005 Proposed Budget, with the proposed amendments and recommendations:**

1. Recommend the City Council Adopt the Updated Three-Year Plan;
2. Support the City Manager's proposed enhancements, which have been identified as core services, community priorities and/or as Mayor and City Council priorities;
3. Support the fee increases proposed by the City Manager and Board of Water Commissioners;
4. Recommend that the CalPERS payment not be deferred;
5. Recommend the following reductions be considered priorities for re-instatement when funding is identified:
  - a) PAL/DARE - Recommend that the suspension of PAL/DARE programs be rescinded, subject to the soon to commence review of youth service programming city-wide, for re-evaluation for continued funding in FY 06;
  - b) Mobile Recreation - Recommend that the suspension of mobile recreation programs in non-CDBG areas be rescinded, subject to the soon to commence review of youth service programming city-wide, for re-evaluation for continued funding in FY 06;
  - c) Library Services - Recommend that the reduction in educational programming and services included in the Three-Year Plan be rescinded;
  - d) Day Camps - Recommend that the reduction of the Day Camp program be rescinded, subject to review as a program offered only as a fee-based service that would include full cost-recovery;
6. Recommend areas such as fleet services, technology services, contract contingencies and consulting contracts, and various non-personal services expenses, be explored for additional reductions;
7. Support the development and/or enhancement of existing partnerships with the private and non-profit sectors to help augment support and/or funding for key services.



Beverly O'Neill  
MAYOR